

Mayor's Budget Message 2016

"Fiscal discipline is not the enemy of democratic governance, but rather its fundamental predicate." Jerry Brown, Governor of California

Introduction

Good Evening Mr. President, members of the city council and residents,

Tonight, I am pleased to introduce the budget for FY16. The printed version will be out later this week and the budget hearings can start next week.

This budget emphasizes my goals of fiscal discipline and improving our quality of life in our city.

A very brief overview of the budget is as follows:

- Public education budget is up by \$2,923,549, which is 3.85% over last year. This is the largest increase in our operating budget. It is \$2,116,899 above the minimum spending requirements for public education.
- New extended learning programs for Tilton and Consentino Schools.
- Snow deficit covered.
- One new police officer, plus two more from grant: a total of 11 new police officers in three years.
- \$700,000 for capital under our capital plan.
- Levy reserve of \$600,000 preserved, not taxing to the max.
- We are replenishing our reserves.

Overall budget

We were able to balance the budget without taxing to the max and improve services for three primary reasons:

1. Last year, we had an extraordinary year with a number of one-time items adding to our free cash, some of which is used in this budget;
2. Over the years we have exercised strict fiscal discipline and controlled our expenditures;
3. The extraordinary efforts of State Representative Brian Dempsey who, once again, came through for our city.

The total overall budget is up by \$8,829,728, a number that is misleading. That includes the use of \$4 million one time free cash money.

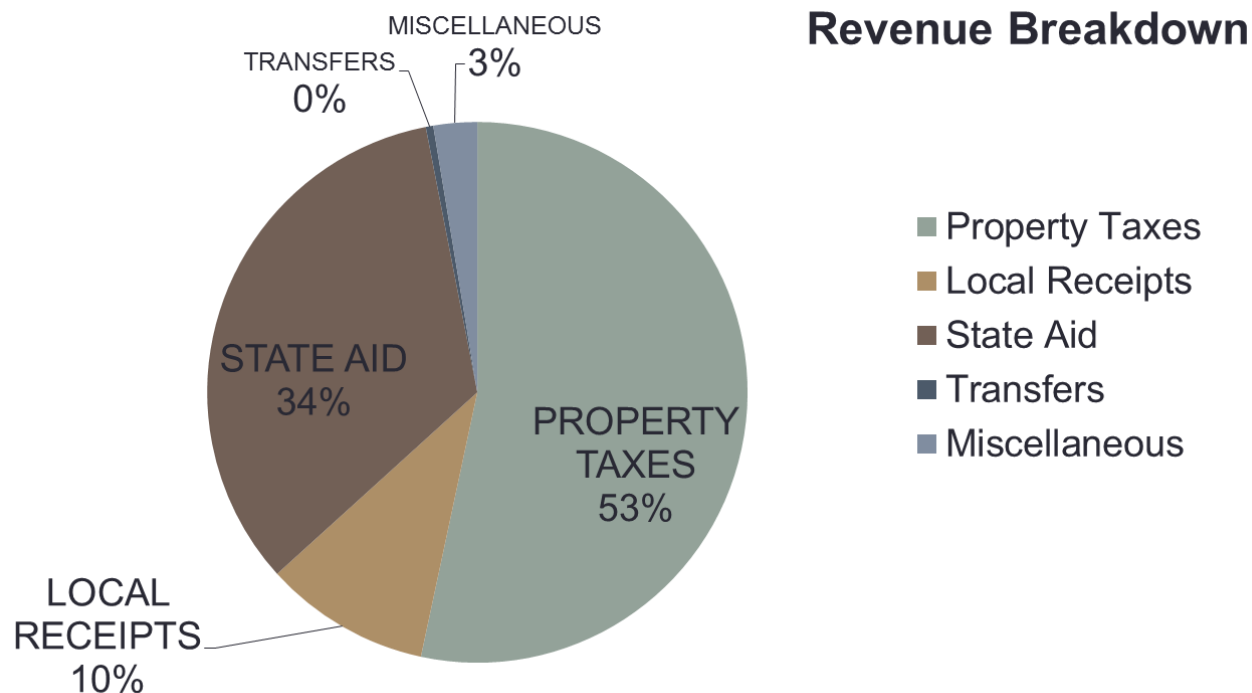
Of the increase, \$2,786,000 is from in local property taxes. We are not increasing taxes to the maximum allowed by Proposition 2 and half, and we remain about \$600,000 below our maximum taxing capacity. I believe that we should wait until the tax bills are set in November or December to decide if we should further reduce the tax bills by using more of free cash.

Of the \$4 million that we are using \$4 million in free cash, we are putting aside \$2.4 million for a rainy day to reserves.

Where money comes from, our revenues

Let me outline first our revenues, which as you will see are up substantially, and then our expenditures.

As you can see from the chart, our budget revenue comes primarily from two sources: local property taxes and State aid. All of the other items that we often talk about—meals tax, fees, excise tax, parking revenues—all of these things together are 10% of the budget.



Overall, we had a good year in 2015, and we are carrying most of our projects into the FY 16 budget.

Revenue Increases

- Property Taxes are up \$2.7M
- State Aid up \$1,708K (3.10%)
- Motor Vehicle taxes up \$244K (4.2%)
- Medicare Part D up \$70K (16.4%)
- School Medicaid up \$65K (8.2%)

Breakdown

State Aid

- Hale hospital debt aid
 - \$2.4M – Thank you Representative Dempsey!
- Other Aid
 - Chapter 70 (schools) \$46,462,498 an increase of \$1,708,430 (3.04%)
 - Unrestricted Local Aid \$314,837 (3.60%)

Additional Revenue Sources

➤ Meals Tax

- \$784,816 an increase of \$11,598 (1.50%)

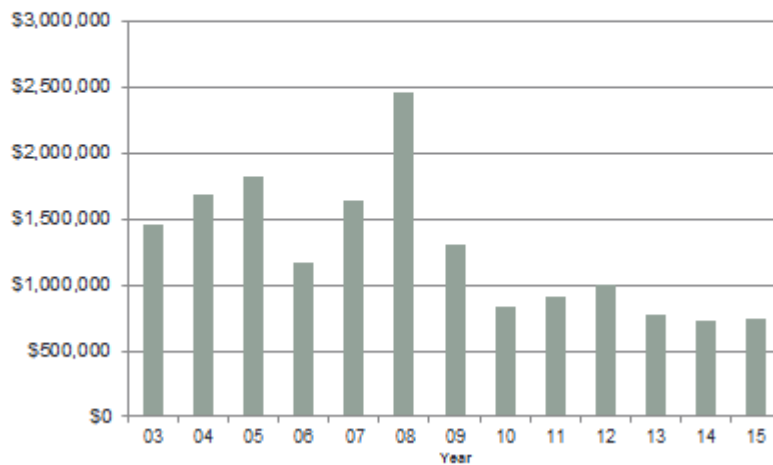
➤ Other Revenue Sources

- Hotel tax:
 - \$330,325 an increase of \$94,225 (39.91%)
 - Ambulance fee is \$52K an increase of \$2K (4%)
 - Cable fee of \$200K

➤ Total is \$1,367,141

New Growth

- New growth numbers still down from prior to recession \$750k



Where does your money go, expenditures

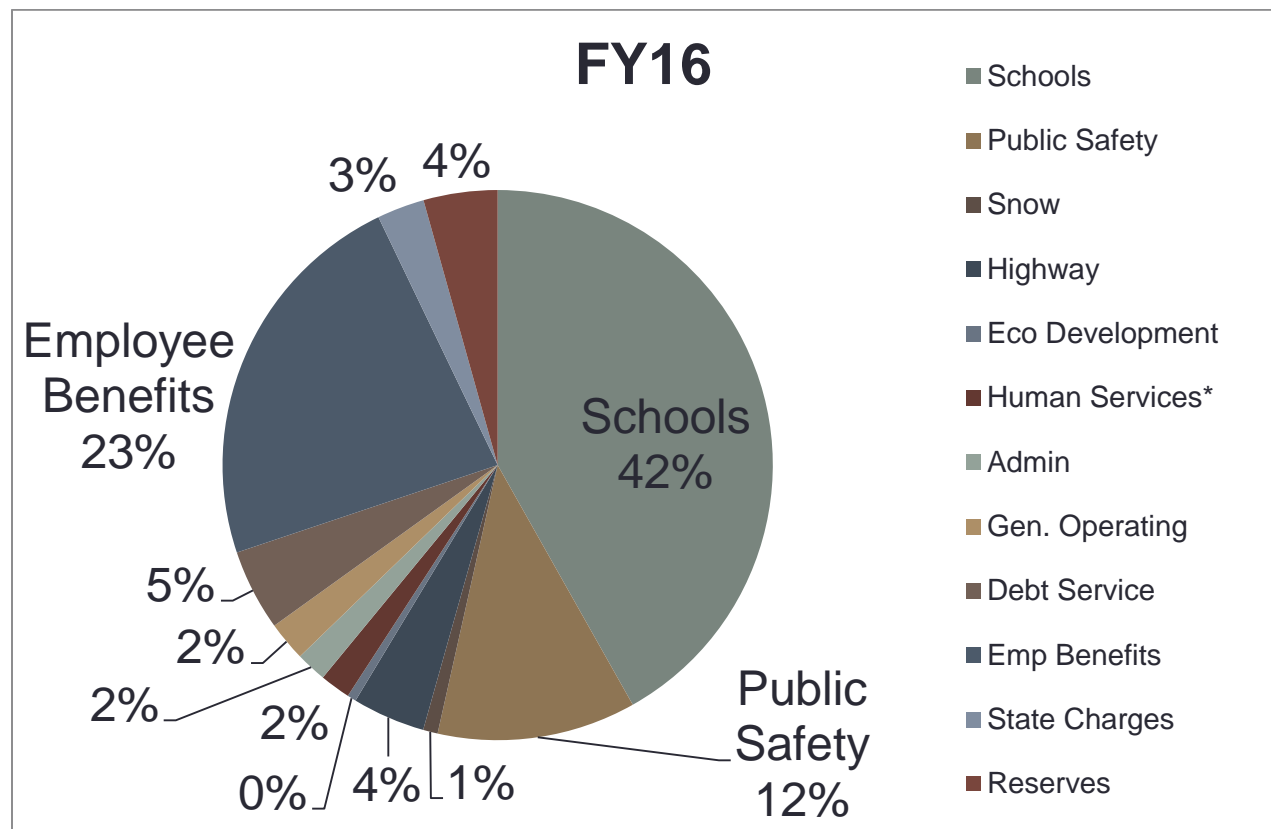
All budgets must be balanced, so the first logical question is where does this money go?

The largest item in the budget by far and away is for public education. Education is by far and away the largest element of our operating budget. This year, public education amounts to 42% of our operating budget followed by employee benefits at 23% and public safety at 12%.

This amount undercounts the actual percentage of our budget that is spent on public education.

Of the 23% of the operating budget that is spent on employee benefits, approximately 60% of that is spent on school employees and retired school employees. Of the 5% of the budget that is spent on debt service, about 50% of that is on school related projects. All told, about 55% of our budget, exclusive of the enterprise funds, is spent on education.

When you take out debt service, utilities and have just an operating budget, you can see that about two thirds of it goes to public education

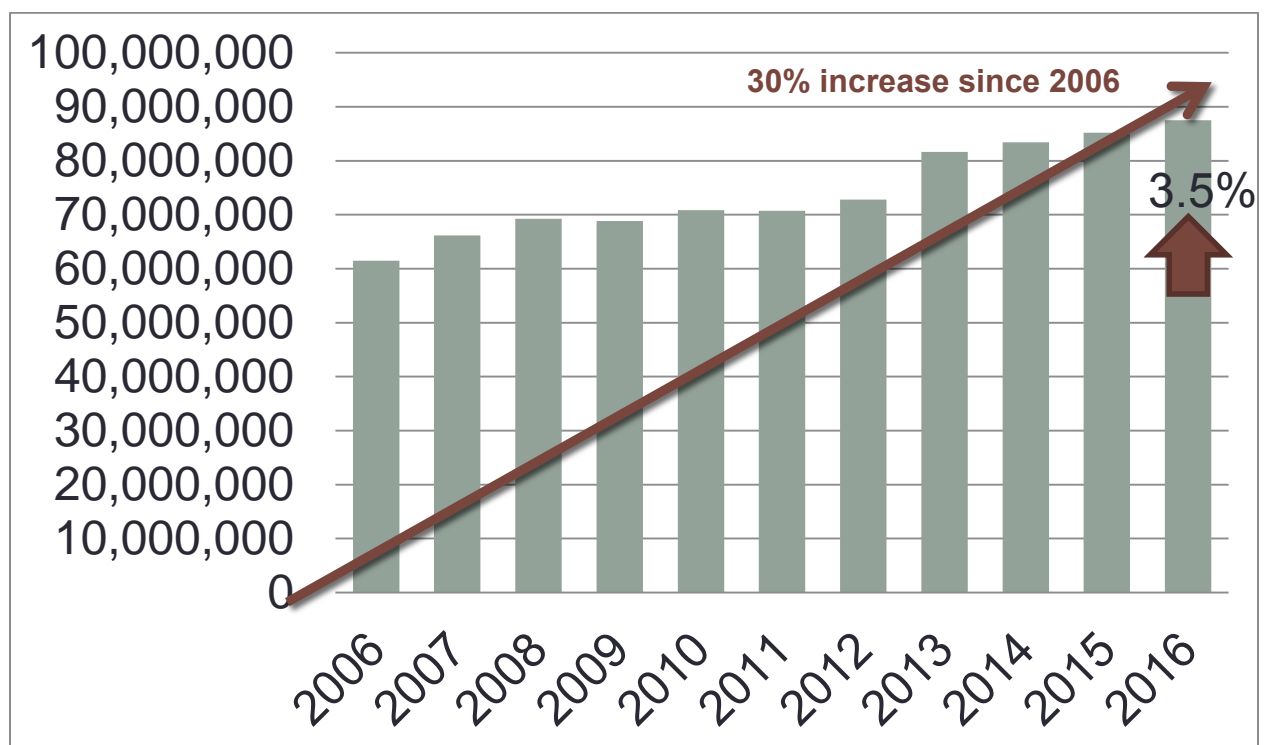


Increase in public education funding

The public education budget is up by \$2,923,549, which is 3.85% over last year. This is the largest amount the city has ever contributed to public education and the largest public education budget ever submitted. It is \$2,116,899 above the minimum spending requirements for public education, called the foundation minimum.

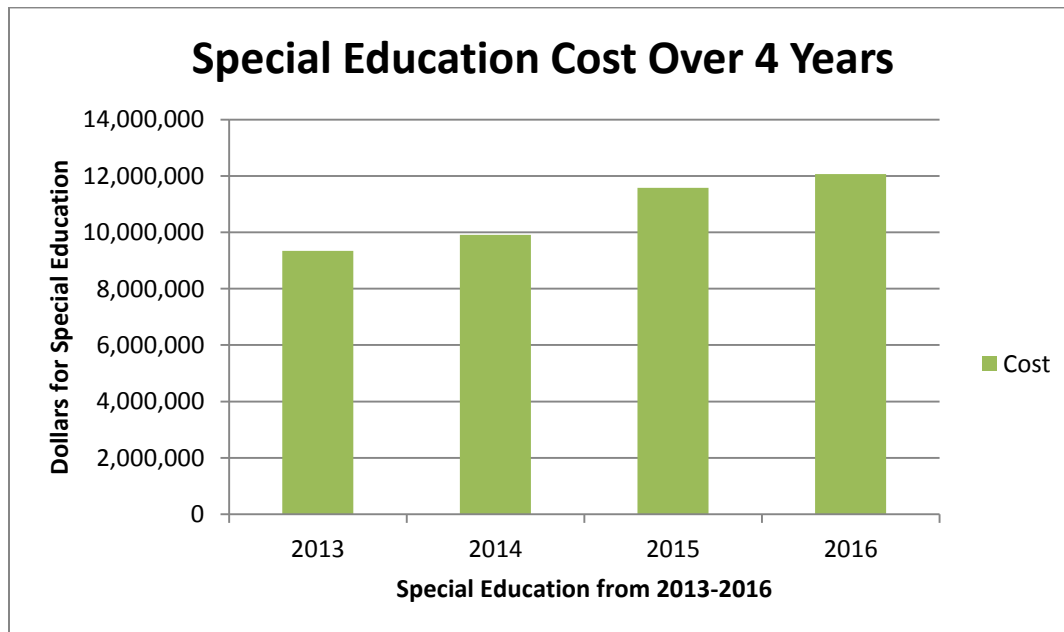
A few weeks ago, Superintendent Scully told the school committee that his proposed budget would be substantially short. I amended this budget to add an additional \$1 million in funds for public education. Superintendent Scully, the best superintendent I have worked with on fiscal matters, cut his budget by \$1 million resulting in an education budget that is balanced, and where we will be able to add to services to improve performance, or add services or settle contracts for reasonable amounts.

This increase in spending for public schools continues our trend of increasing public education spending over the years. **From 2006 until 2016 public education spending has increased by 30% or \$26,027,987** as you can see from this chart. The \$3 million increase this year in public education spending far dwarfs the increases in any other budget.



Special Education

The real storm cloud on the horizon in education is the dramatic rise in the costs associated with special education. This year, special education costs are up a staggering 29%, a \$3 million increase. While overall funding for education is up by \$2,923,549, all of that increase is eaten up by the large increase in public education costs. These costs are simply unsustainable. Unless we all do a better job of controlling special education costs, we will see larger and larger increases in the education budget along with cuts in services for the vast majority of our students. This is unacceptable.



Progress in public education

We now have, for the first time, four (4) level one schools in the city. Until last year we had only a charter school as a level one school. For all that we have done in public education, I am nowhere near satisfied. More needs to be done.

Tilton School



We all know that our problem school has been the Tilton School. This is not due to the teachers or the principal, all of whom due a fine job.

Data shows that extended learning time leads to better school performance. This is common sense. We all know from our own experience that the longer you work and the harder you work, the better you are going to do at your job. The same thing holds true in public education, and numerous studies have proven this.

In addition to the \$8,829,728 for public education, this budget also includes a special budgeted amount, \$78,200.00, for extended learning time at the Consentino and Tilton Schools. This amount will provide for summer school starting this summer for children at those two schools. We hope that this is model for every school in the district.

Improving our quality of life

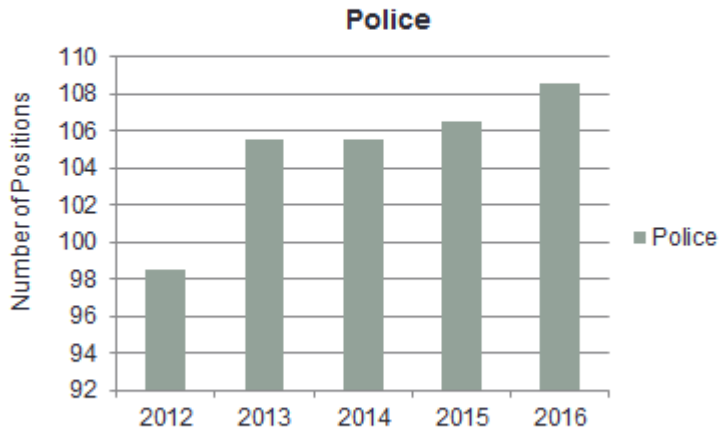
Budgets are always a balance between maintaining quality of services today and planning for tomorrow.

Public Safety

This budget continues the great progress we have made in public safety over the past few years.

This budget adds over \$300,000 in funding for public safety and adds one more police officer to the force. In addition, we are swearing in 5 officers to fill retirements, and, once we have done so, will be eligible for two additional police officers under a State grant obtained for us courtesy of Rep. Dempsey. This brings us to 11 new police officers in the past three years.

Budgeted Hires for Police



But controlling crime is not just about hiring more and more police. It is about the best use of the resources we have, and it is about combining our resources with the resources of others to make certain that our citizens are always safe. Last year, we became the first city in the eastern United States to use predictive analysis software to predict where crimes are most likely to occur. We worked with Federal and State officials to buttress our resources. Last year we have an 11% reduction in crime and our police department did a wonderful job in breaking up the gangs that all of us are so concerned about.

We cannot rest on our laurels. More needs to be done and we intend to do it.

Parks and Playgrounds

Last year, we made a special effort to improve our parks and playgrounds throughout the city. Thanks to a State grant, we improved Swasey field where earlier we had used our own CDBG money to put in a new playground. We used our own money to add playground equipment to Riverside Park, we improved bathrooms and other improvements to Riverside Park, Plug's Pond and Winnekenni and again with a State grant we put in a new playground, which people love, at GAR Park and we have reclaimed that park.



This budget continues that progress. I have in the budget a small amount of money to monitor the building of the new rail trail, which is scheduled to break ground in the summer. I also have \$100,000 to improve playgrounds and parks and I will propose that we use most of that money to improve Riverside Park. Riverside Park is our flagship park and it needs attention. Later this year, I will come in with a plan to rebuild the eroded walkway, add more trees and more benches, put in a kayak launching ramp, open up the view of the river, and expand some of the walking trails to include bike paths. Riverside Park has the potential to be one of the best parks not just in the city but in the entire region and we should invest in it.

Capital

This budget is not a capital budget, which will come later this year. However, we do set aside \$700,000 for capital improvements. Some of those improvements should be around city hall, where we will do needs assessment of the building and its surroundings. Some of the money should be allocated for the number one complaint I receive all around the city, repairing sidewalks.

Economic Development

This budget also includes money to continue our progress in economic development.

Last week, many of the councilors and I attended an update meeting about Harbor Place. We are making tremendous progress on economic development; something that I think is visible to the entire city.



Economic development is not the enemy of good service. Economic development and growth in the city is key to obtaining enough tax revenue to be able to provide the services that we need and desire. If you look nationwide at the cities that are in good financial shape and the ones that are not, the pro-growth cities in the sunbelt, the cities that are encouraging new growth, new residents and new businesses, that are thriving. All of this, however, has to be properly planned.

This budget a small amount of money to continue to advertise vacant industrial properties on the internet.

I have also included in this budget an appropriation of \$50,000 to assist us in evaluating proposals that come before us for economic development. Most of that money should be seen as a revolving fund, since ultimately we want the developers to pay for this review, but we

always want to be certain that the consultant knows they are working for the city not for anyone else.

But I want the consultant to do more than that; I want this consultant to help us plan for the future. I am also going to ask that consultant begin the process of updating our Master Plan to build the Haverhill of tomorrow.

Strict Fiscal Discipline: Planning for tomorrow

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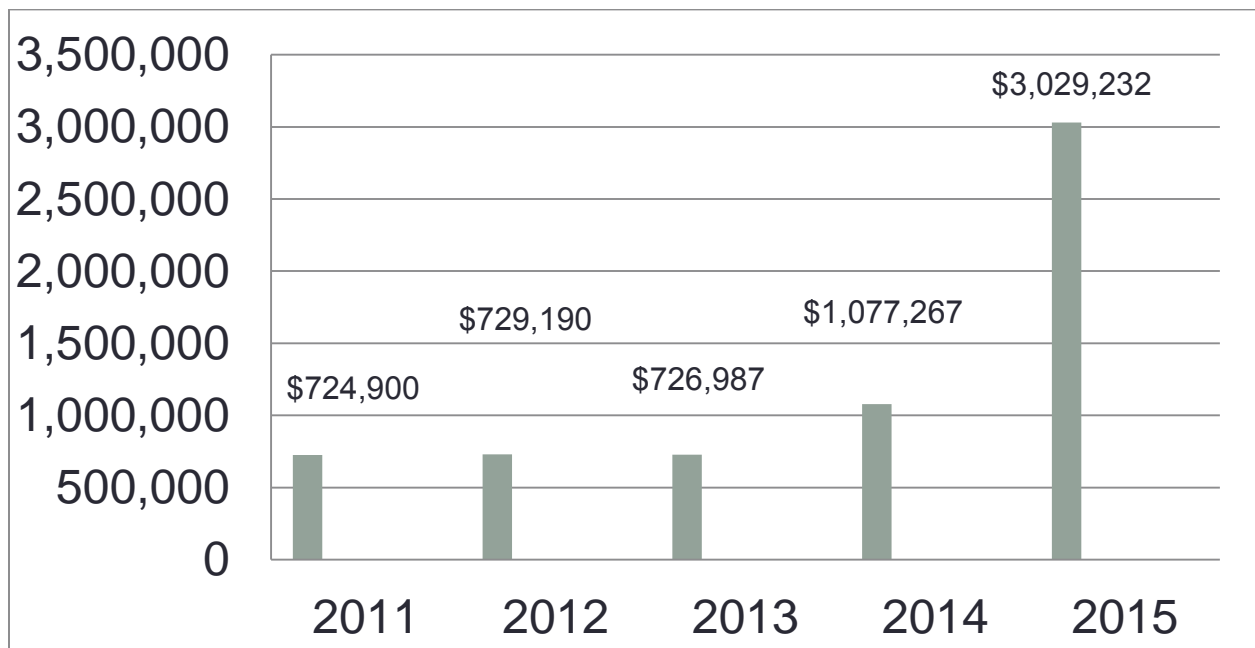
One of the most critical items in the budget is to plan for tomorrow by replenishing our reserves. This budget replenishes our stabilization fund, adds money to our salary reserves. The budget also covers our snow deficit in one year.

Reserves are not a sexy or fancy item but they are critical to our long term future. Having adequate reserves is a crucial reason why our bond rating is now at its highest rate ever.

Twice in recent years, reserves allowed us to weather the storm and prevented problems from becoming catastrophes. In 2013, the school department budget went into deficit by \$1.2 million. Because we had adequate reserves, we were able to weather the storm. In November of last year, the \$2.4 million that Rep. Dempsey gets us every year because of the Hale debt was cut by former Governor Patrick. Because we had adequate reserves, we were able to meet that cut without laying off a single person or cutting a single program.

Reserves

- Schools- \$400,000 reserve set up in FY 15, may be needed to balance FY 15 school budget
- Stabilization-current balance \$581,000 adding \$2.4 million for total of ____
- Taxing below the levy limit- \$600,000



Potential Cost Savings for the City

Potential Cost Savings for the City

- ➡ Purchasing Streetlights will save more than \$450,000
- ➡ Increase in Chapter 90 funds will mean more money for street repairs
- ➡ Paid Parking program needs to be self sufficient
- ➡ Toter Program could save up to \$450,000 per year

The challenges that lie ahead

Let me talk to you briefly about the challenges that lie ahead. Each of these challenges will require us to have adequate reserves and to hold the line on spending. Together, they will present major challenges going forward.

Post-employment liability

The first of these challenges is what is called post-employment liability, pensions and health care on retirement. This year's pension assessment is up by over \$1 million. Even at that rate,

we are still not adequately contributing to our pension funds.

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Challenges that lie ahead

- OPEB
- CSO and Storm Water
- Second Mound of Landfill

Part of our post-employment liability is OPEB, other post-employment benefits, which are primarily health care benefits upon retirement. In past budget messages I have used the accounting term for this GASB 45 benefits, but the new term is not OPEB liability. It all amounts to the same thing—the liability of a city to pay the health care benefits to its retirees.

Over the past few years, the accounting standards have changes and now require us to hire an actuary and estimate our OPEB liability. Previously, we were on a pay as you go basis and did not have to estimate the total cost.

A few years ago, we hired an actuary and our estimate of post-employment benefits was staggering—around \$270,890,482 million. Now, by changing the design of our health care system, we were able to reduce this by millions of dollars, but it still remains a substantial liability. At some point, we need to set aside money in reserve to begin saving for this.

Storm Water and CSO's

The second storm on the horizon concerns storm water and CSO's, combined sewer overflows. I have spoken about this before to the city council and the public and I offer a brief update here. We estimate that we are going to have to pay about \$50 million altogether in funding CSO improvements. This is an unfunded Federal mandate.

Haverhill's CSO Program Summary of Loan Repayments

	Project Status	Annual Loan Repayments
CSO Phase I	Complete	\$1,140,808 ⁽¹⁾
CSO Phase II – Study, planning, engineering	Complete	\$109,109
CSO Phase II	Ongoing - estimated	\$800,000
Future phases of CSO Work	To be determined	??????

(1) 30-year loan

Beginning in FY16 – add \$140,000 per year for flow metering CSO outfalls

Haverhill's CSO Program Cost Summary

CSO Phase I	Complete	\$18.5 million
CSO Phase II – Study, planning, engineering	Complete	\$1.2 million
CSO Phase II	Ongoing	\$12.1 million
Future phases of CSO Work	To be determined	??????

- Future phases – EPA and DEP will continue to require the City to spend more money to continue to reduce CSO's
- Costs do not include significant increases in operation and maintenance costs.
- Phase II includes updating the CSO Long Term Control Plan which will determine future CSO work

Storm Water

The Federal government is in the process of issuing a new revised storm water permit for all the cities in this region. That revised storm water permit will regulate how we sweep our streets, and how we control the water that hits our river in the event of a rain storm.

Stormwater

- First Permit issued in 2003
- FY16 Wastewater Budget
 - \$372,508 for stormwater
- New 2015 Draft Permit
 - Annual average estimated cost \$1.1 million

We believe, and most of the cities in this region believe, that the proposed EPA storm water and CSO requirements are unreasonable and unduly burdensome and will unnecessarily cost our tax payers and ratepayers millions of dollars that they can ill afford for work that provides only a marginal benefit to cleaning the river. The Massachusetts Department of Environmental Protection (DEP), the agency in charge of regulating cities and towns and making certain that we comply with environmental regulations, has sided with the cities, in part, on storm water regulations and has written a letter to the EPA joining the cities and towns in expressing concerns over the proposed new permit. We are still in negotiations but we have every reason to believe that the new storm water regulations will cost us millions of dollars in upfront money and require us to impose costly new fees on our residents and our businesses.

Conclusion

Let me conclude with this. We had a great year last year, we have a lot of money in free cash and we are very fortunate as a city to have Rep. Dempsey to be able to assist us. This budget covers our basic needs, adds to the areas where we need to add and holds the line on spending in other areas. Unlike many other cities, we are not laying anyone off, we are not cutting programs and we are adding to our cash reserves, while other cities are using theirs.

Today is the day when we need to maintain our services but we need to resist the urge to spend more because most of the extra money we are spending in this budget is one time money.

I look forward to working with each and every one of you to improve this budget at your hearings. Thank you for listening.